

APPLICATION FOR APPROVAL TO ESTABLISH THE KENAI LOOP UNIT

As required by 11 AAC 83.321 five copies (one original and four copies) of the non-confidential portions of this Application for Approval to Establish the Kenai Loop Unit (hereinafter referred to as the ("Application")) and two copies of the confidential portions of the Application (hereinafter referred to as the "Geologic and Engineering Report"), submitted under separate cover with this Application, are submitted as part of this Application. Under the provisions of AS 38.05.035(a)(9)(C), Buccaneer requests that the two copies of the confidential portions of the Application remain confidential.

Application Contents

1. Background and description of the area proposed to be unitized.
2. The criteria which the Commissioner of Natural Resources must consider under 11 AAC 83.303 to approve a unit agreement as they relate to the Kenai Loop Unit leases.
3. Proposed modifications to the state's Model Unit agreement form and rationale for the modifications.
4. Summary and request for written finding and approval of the Kenai Loop Unit Agreement and the 5-Year Initial Unit Plan for the Kenai Loop Unit.

Attachments required by 11 AAC 83.306:

1. The unit agreement ("Kenai Loop Unit Agreement", as modified by the State and Buccaneer), including Exhibits A, B, and G required under 11 AAC 83.306, executed by Buccaneer Alaska, LLC ("Buccaneer") that owns and controls one hundred percent (100%) of the working interest allocable to the leases comprising one hundred percent (100%) of the proposed Kenai Loop Unit ("Kenai Loop Unit").
2. The Plan of Development (Initial Unit Plan) required under 11 AAC 83.343 is included as Exhibit "G" to the Kenai Loop Unit Agreement.
3. The unit operating agreement ("Kenai Loop Unit Operating Agreement") executed by the Working Interest Owners, which includes Buccaneer that owns and controls one hundred percent (100%) of the working interest allocable to the leases comprising one hundred percent (100%) of the proposed Kenai Loop Unit. The unit operating agreement is submitted for information purposes only and does not require the Commissioner's approval for adoption or amendment.
4. No further evidence is required of reasonable effort made to obtain joinder of any proper party to join the unit agreement since all proper parties have joined in signing the Kenai Loop Unit Agreement and the Kenai Loop Unit Operating Agreement.
5. Pertinent geological, geophysical, engineering, well data, and interpretations of those data, directly supporting the Application ("Geologic, Geophysical and Engineering Report").
6. Redline copy of State of Alaska's and Cook Inlet Region, Inc Unit Agreement Form (State/CIRI Form) indicating the proposed modifications of the State/CIRI Form for the Kenai Loop Unit Agreement.
7. Buccaneer check # _____ in the amount of \$5,000 as the Application fee for a new unit.

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**DIVISION OF
OIL AND GAS**

Background and Description of the Area Proposed to be Unitized

Seven (7) State of Alaska oil and gas leases are proposed to be included in the Kenai Loop Unit. These seven (7) leases, MHT-9300082, MHT-9300070, C-061667, ADL-391094, ADL-391092, ADL-391091 and ADL-391095 comprise a total of 7499.64 acres, all of which are located onshore beneath lands owned by the State of Alaska ("DNR"), The Mental Health Trust Authority ("Mental Health Trust" or "MHT") and Cook Inlet Region, Inc. These leases were issued in either competitive or negotiated oil and gas lease sales over a five (5) year period; MHT9300082 was acquired in a competitive lease sale held by the Mental Health Trust in December 2010, MHT9300070 was acquired in a negotiated process in December 2010, C-061667 was acquired from CIRI in a negotiated process in February 2011 and ADL-391091, ADL-391092, ADL-391094 and ADL-391095 in the May 2006 Cook Inlet Areawide Lease Sale. Each of the leases were issued with a 5 year primary term. MHT-9300082 is currently held by production from the Kenai Loop No. 1 well, unless extended under the terms of the leases, MHT9300070 will expire on January 1, 2016 (50% of proposed Kenai Loop Unit), C-061667 will expire on March 1, 2016 (17% of proposed Kenai Loop Unit) and ADL-391091, ADL-391092, ADL-391094 and ADL-391095 on September 30, 2012 (18.6% of proposed Kenai Loop Unit). Buccaneer has acquired all its interest in the proposed Kenai Loop Unit since November 2010, drilled two wells in 2011, secured gas sales contracts, commenced sustained natural gas production from the Kenai Loop No. 1 well and completed 23.4 square miles of 3D seismic.

The proposed 7500 acre Buccaneer Kenai Loop project area is located on the northern Kenai Peninsula on a ridge between Cannery Loop Field (200BCFG) and Beaver Creek Gas Field (6MMBO, 250 BCFG) and has productive intervals and seismic amplitude anomalies in the same productive intervals as these fields. Several control wells and two hundred miles of 2D seismic were used to map Kenai Loop and, similar to the surrounding fields, there are multiple stacked pay zone possibilities between 5000 and 11,000 feet in the Beluga and Tyonek Formations. The Beluga sands consist of fluvial channels oriented in a northeast-southwest direction. Such channels in the Beluga & Tyonek formations are productive in the Cannery Loop field.

The Kenai Loop #1 (KL#1) discovery well was completed in May 2011 with 81' of pay in the 9700' and 10,000' Tyonek gas sands. The combined flow rate was 10 MMCFGPD and the AOF was 33 MMCFGPD. KL#1 has been in production at a constant rate of 5MMCFGPD since mid-January 2012 and has produced .6BCFG through the end of May, 2012.

11 AAC 83.356 (a) provides that a unit must encompass the minimum area required to include all or a part of one or more reservoir or potential hydrocarbon accumulations. Consequently, Buccaneer proposes that only seven (7) Leases be included in the Kenai Loop Unit at this time to cover the proven productive area of the Tyonek sands and multiple potential hydrocarbon accumulations in the Sterling, Beluga, Tyonek and Hemlock formations.

Attached as part of this Application is Buccaneer's Geologic, Geophysical and Engineering Report, which Buccaneer requests be held "Confidential" pursuant to AS 38.05.035(a)(8)(C), setting forth the geological, geophysical, engineering and well information, including maps and seismic data and interpretations of these data, describing this reservoir and the potential hydrocarbon accumulations. A map of the proposed Unit Area comprising the lands and leases to be included in the Unit Area is attached as Exhibit "A" to the Kenai Loop Unit Agreement. A more complete description of the leasehold interest proposed for inclusion in the proposed Unit Area are described in Exhibit "B" to the Kenai Loop Unit Agreement.

The Criteria Which the Commissioner of Natural Resources Must Consider Under 11 AAC 83.303 to Approve a Unit Agreement as they Relate to the Kenai Loop Leases

The state statutes and regulations provide that the Commissioner will approve a proposed unit agreement for state oil and gas leases if he makes a written finding that the agreement is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180(p) and that the proposed unit agreement will (1) promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area; (2) promote the prevention of economic and physical waste; and (3) provide for the protection of all parties of interest, including the state. Buccaneer realizes that it has the burden of demonstrating to the Department of Natural Resources why the Commissioner's approval of the Kenai Loop Unit Agreement is necessary or advisable to protect the public interest. In doing so, Buccaneer will address in this Application each of the criteria set forth in 11 AAC 83.303, as those criteria relate to the facts surrounding this Application. It will also address the question of why the state should agree to extend the primary terms of the leases through unitization, rather than simply waiting for the leases to expire and re-offering them for lease at some later date.

Buccaneer respectfully submits that approval of the proposed Kenai Loop Unit Agreement and formation of the Kenai Loop Unit meets the criteria of 11 AAC 83.303(a), as it will:

- Promote the conservation of oil and gas by providing an efficient, integrated approach to exploring and developing the Kenai Loop structure. Unit formation will reduce the environmental impact through unitized development of the hydrocarbon accumulations; and
- Promote the prevention of economic and physical waste by setting forth a development plan that allows maximization of physical and economic recovery as well as efficient use of unitized facilities; and
- Provide for the protection of correlative rights of all parties including the State of Alaska, MHT and CIRI.

Based upon the record established herein, Buccaneer believes that approval of the Kenai Loop Unit Agreement complies with the statutory and regulatory provisions governing unitization satisfy the regulatory requirements for unit formation and will be in the public interest. Granting this unit application is in the public interest because unitization of this potential hydrocarbon accumulation will result in the quickest way to develop these resources in a responsible and economical manner; generates more investment in Cook Inlet; increases employment for Alaskans; brings a potential new gas supply to a market, as recognized by the Alaska Legislature in the Cook Inlet Recovery Act, that is in dire need of more gas; and provides revenue for state and local governments.

Buccaneer respectfully requests that the Commissioner consider the following factors in evaluating its Application for Approval of the Kenai Loop Unit Agreement in light of the criteria which he must consider under 11 AAC 83.303:

1. Environmental Costs and Benefits of Unitized Development from the Kenai Loop Unit.

There are no identifiable environmental costs of unitized development that would exceed the costs entailed in lease-by-lease exploration and development. On the other hand, as described below, unitized operations will both reduce the potential environmental impacts and minimize the surface disturbance associated with the development of the resources underlying the proposed Kenai Loop Unit Area. Both the State of Alaska, MHT, CIRI and Buccaneer stand to gain from these beneficial effects of unitization.

The State of Alaska, Mental Health Trust and CIRI presumably weighed the relatively greater environmental costs of lease-by-lease development carefully in its initial decisions to offer the Kenai Loop leases for sale. The State of Alaska, MHT and CIRI selection and incorporation of the specific mitigation measures and plan of operations permit terms applicable to the Kenai Loop leases reflect a careful consideration of the potential impacts of exploration and development and the steps necessary to minimize or eliminate potential negative impacts. Under the terms of the Cook Inlet Areawide Competitive Lease Sales, the state made the determination that to mitigate the potential adverse social and environmental effects of specific related activities, lease stipulations will be enforced throughout the term of the lease, and the measures listed under Plan of Operations Permit Terms will be imposed through plans of operation and other permits. Any potential development of Kenai Loop Unit Leases will be done in accordance with the safeguards previously established by DNR and required as a condition of sale. Buccaneer will be responsible for implementing each of the lease-specific mitigation measures, and will comply with the specified permit terms in its development of the Kenai Loop Unit Leases under the terms of the proposed Unit Agreement.

Under the terms of the proposed Kenai Loop Unit Agreement, unit plans of exploration and development must be approved by the Commissioner, CIRI and MHT, and no exploration, development or production may be commenced in the Unit Area except in accordance with an approved plan. In addition to the mitigation measures and Plan of Operation permit terms incorporated in the Leases, the state also has reserved to itself the authority to impose additional mitigation measures should it determine them to be necessary during its review of permit applications for future operations on the leases.

As DNR has concluded repeatedly in prior decisions approving requests for approval of unit agreements, unitized exploration and development of the leases will reduce environmental costs and provide benefits for the state, Buccaneer and for any partners that may join the unit in the future. Unitized exploration and development has long been recognized as beneficial for the environment. By combining lease interests so that the Kenai Loop Unit Leases may be operated as one lease, both the number of facilities and the size of the facilities required to develop the prospect will be reduced. Rational surface-use decisions can be made without consideration of individual lease ownership or expense. As a result, facilities can be located to maximize recovery and to minimize environmental impacts. During the exploration and development operations of the Kenai Loop Unit operation activities will utilize the minimum amount of surface impact consistent with prudent and efficient oil and gas industry practices. Multiple wells drilled from a gravel pad will provide for the most efficient utilization of land. The probability that the entire structure will be explored and exploited can only be optimized through unitized development. The environmental impacts would be significantly greater if the Kenai Loop structure was developed on a lease-by-lease basis, rather than on an integrated unitized basis with a single operator.

2. Geological, Geophysical and Engineering Characteristics of the Kenai Loop Structure.

The geological and engineering characteristics of the primary reservoir objective in the proposed Kenai Loop Unit are described in detail in Buccaneer's confidential Geologic, Geophysical and Engineering Report submitted with this Application. Based upon a review of the technical data available at the time of this Application, including production data, the proposed Unit Area includes acreage which is productive. In addition, the proposed Unit Area may contain acreage overlying one or more additional potential reservoirs that will be evaluated under Buccaneer's proposal. The Initial Unit Plan to which Buccaneer has committed is designed to continue gas production from the Initial Participating Area in the Upper Tyonek formation, determine the areal limits of that reservoir, and to evaluate other potential oil and gas reservoirs within the boundaries of the proposed Kenai Loop Unit. The attached confidential Geologic, Geophysical and Engineering Report describes the geological, geophysical and engineering characteristics of the Kenai Loop structure.

3. Prior Exploration Activities in the Proposed Kenai Loop Unit Area.

The attached confidential Geologic, Geophysical and Engineering Report describes in more detail the prior exploration activities mentioned above in the proposed Kenai Loop Unit Area.

4. Plans for Development of the Proposed Kenai Loop Unit Area.

Exhibit "G" to the proposed Unit Agreement sets forth Buccaneer's proposed Initial Unit Plan.

5. Economic Costs and Benefits to the State, MHT and CIRI.

The overall costs of exploring and developing the Kenai Loop leases, both from the state's, MHT's, CIRI's and Buccaneer's perspectives would be higher on a lease-by-lease basis than it will be under the terms of the Kenai Loop Unit Agreement and the Kenai Loop Unit Operating Agreement. Investments in drilling and facilities costs will be minimized as a consequence of eliminating the potential for competitive development within the Unit Area. The locations of individual wells and surface facilities will be determined by rational engineering and reservoir management considerations and not by competitive pressures. Reducing costs through unitized operations will expedite development and promote greater ultimate recovery of the oil and gas in the Unit Area, thus accelerating and extending the lessor's income stream from taxes and royalties. In addition, if the project is a success and profitable, Buccaneer and potentially other working interest owners, will derive revenues from the development that may be reinvested in new exploration and development.

Accelerating the development of the Kenai Loop Leases benefits both the State of Alaska, MHT, CIRI and Buccaneer. The importance of this fact cannot be overemphasized. Based upon the history of these Leases, and in consideration of the relative maturity of Cook Inlet oil and gas production, the Commissioner's approval of the proposed Kenai Loop Unit Agreement is vitally important. Both the frequency of new field discoveries and the production of oil and gas from the Cook Inlet basin has continued to decline dramatically. Only four new gas fields have been discovered since 1977, all of which were relatively small as compared to the earlier discoveries in the area. As both the success of Cook Inlet exploration and the volume of oil and gas production has declined, so has the number of companies committed to exploration and continued operation of Cook Inlet fields. Many major oil companies have abandoned Cook Inlet in the last thirty years, and those few that remain have recently rationalized their leasehold interests to focus on what they view to be their respective strengths, rather than continuing to pursue broad based exploration and development of Cook Inlet leases.

Counter to the obvious perceptions of some of these companies, Buccaneer believes that there are many opportunities remaining for new exploration, exploitation and, hopefully, the development of previously discovered but undeveloped reserves in Cook Inlet. The delineation and development of the Kenai Loop Leases presents just such an opportunity. However, that opportunity could be lost or deferred to the detriment of both the State of Alaska and Buccaneer, if the proposed Kenai Loop Unit Agreement is not approved.

As an indication of its commitment, Buccaneer has interpreted approximately 200 miles of 2D survey, including. In addition, Buccaneer has acquired a new 3D Seismic Survey that covers 24.7 square miles and encompasses all of the acreage included in the proposed Kenai Loop Unit.

Buccaneer is also committing to a responsible and expedited drilling program to delineate the field, and to drill, additional wells in the unit to evaluate additional formations identified with the 3D Seismic. However, fulfillment of these commitments and delivery of the benefits which they have the potential to provide, are entirely dependent upon Buccaneer's ability to approve and

develop the proposed Unit Area without the threat of losing one or more of the Leases crucial to the economic development of the prospect.

Through Unit formation and Buccaneer's aggressive Initial Unit Plan, the DNR, MHT and CIRI will be provided the earliest identification and additional development of its natural resources underlying their lands in the Unit Area. A primary goal of unitization is the protection of the parties in interest in one or more hydrocarbon accumulations. The formation of the Kenai Loop Unit extends these benefits and protections to all leases reasonably proven to be capable of contributing to production from the Kenai Loop feature mapped by Buccaneer. A fair and equitable allocation of production will be provided for in the Unit Agreement. Without unitization, the varied ownership interests in the Unit Area make equitable economic development of the area difficult. All interests must be pooled and integrated to provide protection of each party's correlative rights.

The DNR's, MHT's and CIRI's economic interest is protected by maximizing the physical recovery of hydrocarbons from the Kenai Loop Structure. Maximizing hydrocarbon recovery in turn assures maximized production based revenue accruing to all parties. Unitized development of the Kenai Loop Structure will increase the economic well being of the State of Alaska and its residents, the MHT and CIRI by creating jobs for the construction of facilities and continuous operations of the Unit thereby helping to ensure timely and crucial gas supplies to the south-central region of Alaska. Unitized operations within the proposed Kenai Loop Unit Area will also minimize impacts to the area's cultural, biological, and environmental resources.

6. Other Relevant Factors the Commissioner Determines Necessary or Advisable to Protect the Public Interest.

Buccaneer respectfully submits that all of the impacts associated with the Commissioner's approval of the Kenai Loop Unit Agreement will be positive. As discussed above, delineation and development of the Kenai Loop leases will occur earlier than would otherwise be possible absent unitization. Under the terms of the proposed Unit Agreement, all operations on the leases will be subject to prior review and approval by DNR, and will continue to be subject to the stipulations in an approved Plan of Operations, the terms of the Leases, as well as any additional mitigation measures determined by the state to be necessary. Development of the Kenai Loop Unit reserves, will provide additional jobs with increased payrolls and taxes, and will stimulate the state and local economies. In addition, development of the Kenai Loop reserves will provide royalty and taxes to the state to help offset the continuing decline of those revenues as North Slope and Cook Inlet production declines.

To further protect the public interest, Buccaneer has incorporated reasonable and equitable terms in the proposed Kenai Loop Unit Operating Agreement which will facilitate the joinder of any other lessees that may desire to join the unit in the future. In providing for the combining of other lease interests in joint operations under the terms of the Unit Agreement and the Kenai Loop Unit Operating Agreement, all potential working interest owners are assured an equitable allocation of costs and revenues commensurate with the value of their respective lease interests.

**Proposed Modifications to the State's Model Unit Agreement Form
and Rationale for the Modifications**

The proposed Kenai Loop Unit Agreement submitted with this Application for unit formation is modeled after the State of Alaska's and CIRI's Unit Agreement Form prepared for the COHOE Unit (State/CIRI Form). Pursuant to 11 AAC 83.306 and 11 AAC 83.326(b) Buccaneer requests that the Commissioner approve and adopt those modifications of the Model

Form reflected in the attached Kenai Loop Unit Agreement which is a redline copy of the revised Model Form attached to this Application which depicts the modifications recommended to be made to the Model Form. Cosmetic and conforming changes are not considered modifications to the standard State Only Unit Agreement form.

Several revisions/modifications are made at the request of Buccaneer. These changes meet the requirements set out in 11 AAC 83.303. The more substantive amendments/modifications proposed are intended to protect the State's, CIRI's and MHT's interest, as well as that of the Working Interest Owners in the proposed Kenai Loop Unit. These amendments are intended to provide more explicit guidance for the parties in implementing the Agreement. Buccaneer will provide a more detailed explanation of and reason for a specific proposed modification if the DNR, CIRI or MHT so requests.

Summary and Request for Written Finding and Approval
of the Kenai Loop Unit Agreement and the 5-Year Initial Unit Plan for the Kenai
Loop Unit

Based upon the facts outlined in this Application and Buccaneer's commitment to expedited exploration and development of its Leases, Buccaneer believes that the Commissioner of Natural Resources' and CIRI's approval of the proposed Kenai Loop Unit will:

- promote conservation of all natural resources, including all or part of an oil or gas pool, field, or like area;
- promote the prevention of economic and physical waste; and
- provide for the protection of all parties of interest, including the state.

Accordingly, Buccaneer requests that the Commissioner, or his designee, make a written finding that the proposed Kenai Loop Unit Agreement is necessary or advisable to protect the public interest considering the provisions of AS 38.05.180(p) and the provisions of 11 AAC 83.303. Based upon that written finding, Buccaneer further requests that the Commissioner, or his designee, approve the Kenai Loop Unit Agreement and the 5-Year Initial Unit Plan incorporated therein (attached to the Kenai Loop Unit Agreement as Exhibit "G").

Given the meetings and technical presentation Buccaneer has had with the DNR, CIRI and MHT staff to date, and the discussions regarding the content of the Application, Buccaneer respectfully requests a determination that this Application is deemed complete and that the DNR proceed with the public notice and Kenai Loop Unit approval as prescribed under 11 AAC 83.311 and 11 AAC 83.316. If there are any questions, or additional information is required, regarding this Application please contact Mark R. Landt, Vice President, Land and Business Development at (713) 468-1678.